

### FALL 2017

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## Changes to Income Tax Rules for 2017

### Be aware of changes to the income tax rules that will affect your 2017 filing.

For those already thinking about their 2017 income taxes, the following summarizes some of the changes from 2016.

#### Tax Credits

The child tax credit for arts and fitness is gone. Since this tax credit was capped at a maximum of \$500 for fitness and \$250 for arts per child in 2016, its removal will not likely have a major impact on most people's 2017 return.

#### Education

The tax credit for education and textbooks for full- or part-time students was eliminated effective December 31, 2016. Taxpayers with unused tax credits from 2016 or prior years will be able to carry them forward and apply them against future taxes.

The tuition tax credit is, however, still in effect.

In recognition of the need to support education in technical skills, the number of courses eligible for the tuition tax credit will be increased. Occupational courses provided by post-secondary institutions within Canada will be granted the tax credit. If a bursary is provided, the amount will likely qualify for either the full or basic scholarship exemption. Examination fees paid to take an occupational, trade, or professional examination to obtain a professional status recognized by federal or provincial statute, or to be licensed or certified as a tradesperson, to allow you to practise in Canada, may also be eligible for the tuition tax credit. However, if your fees were paid by your employer or the employer of one of your parents, or by a government program and not included in your income, you cannot claim the credit.

#### Labour-Sponsored Funds

Those who invested in labour-sponsored venture capital corporations will no longer be able to apply for the federal tax credit. Prior to 2017, a taxpayer would receive a federal tax credit of 15% of the investment up to a maximum of \$750. Taxpayers should confer with their Chartered Professional Accountants (CPAs) to determine whether a provincial tax credit will be available in 2017 should they choose this investment vehicle.



#### Income splitting is gone.

#### Indexing

RRSP contributions, tax brackets, and various tax credits will increase in 2017 to reflect the adjustment for inflation as measured by the Consumer Price Index (CPI). The percentage increase for 2017 has been pegged at 1.4% (i.e., the 2017 personal exemption will increase to \$11,635 from \$11,474 in 2016). To capture information on the new levels for all tax credits and other deductions that have been indexed, you should visit the CRA website page: "Indexation adjustment for personal income tax and benefit amounts" <http://www.cra-arc.gc.ca/tx/ndvds/fq/ndxtn-eng.html>

The notable exception to the inflationary increase is the Tax Free Savings Account that will continue to have a \$5,500 per annum maximum contribution limit.

#### Work in Progress

Prior to March 22, 2017, unbilled work in progress was allowed to be deferred until billed to clients. This deferral allowed certain designated professionals (i.e., lawyers, dentists, doctors, and accountants) to delay the recognition of income until the year when the work was invoiced to clients. Effective March 22, 2017, this deferral of work in progress was eliminated, resulting in an immediate income inclusion of work in progress. A transitional relief will be available over a two-year period to help mitigate the tax impact of this change.



## Changes to Income Tax Rules for 2017 - continued

### Caregiver Amounts

Prior to 2017, three credits were available for those in need of assistance:

- caregiver credit
- infirm dependant credit
- family caregiver tax credit.

To simplify the process and to recognize the need to provide financial support to caregivers, a new Canada caregiver credit will provide a 15% non-refundable tax credit maximizing at \$6,883 of expenses for the care of parents, brothers and sisters, adult children and other specified relatives who have infirmities. An additional tax credit up to \$2,150 on expenses is available for the care of a dependent spouse, a common-law partner, or a minor child with infirmities. The tax credit will be calculated using a formula that reduces the credit dollar for dollar once the dependant's net income exceeds \$16,163.

### Intangibles

Prior to 2017, any gain from the disposition of intangibles such as goodwill or trademarks, was treated as regular business income and was not subject to the capital cost allowance rules. Now, any gain from the disposition of goodwill and trademarks will become fully taxable as investment income. Companies will now be required to transfer the cumulative eligible capital pool as at December 31, 2016, to a new capital cost allowance class 14.1. This pool will be depreciated at 7% annually on the declining balance for the first 10 years, then at 5% annually thereafter. For the expenditures incurred after December 31, 2016, a 5% depreciation rate will apply.

### T4s

Prior to 2017, employers were able to supply employees with their T4 information slips electronically if the employee gave permission. Effective 2017, the employer will not need permission. The employer must, however, have safeguards in place to ensure confidentiality and provide paper copies to former employees or employees on leave or upon request. Employees must ensure the information received is correct in order to avoid penalties and interest if they file an incorrect T1 tax form.

### Possible Changes Ahead

While the changes noted in the 2017 Federal Budget were not as significant as those in the Liberals' first budget introduced in 2016, it signalled the government's intention to review the tax planning techniques that are currently available to the owners of private corporations. Specifically, the review will include the tax advantages provided to the business owners by:

- income sprinkling
- holding passive investments via a corporation
- converting regular income into capital gains.

Unfortunately, the budget did not include much detail. The government is expected to issue policy papers on this topic sometime during the summer of 2017, however. Any changes could impact the business owners significantly. ♦



## Motivation

**Being motivated and inspiring motivation are the keys to success.**

Motivation, according to Business dictionary.com is the "Internal and external factors that stimulate desire and energy in people to be continuously interested and committed to a job, role or subject or to make an effort to achieve a goal. Motivation results from the interaction of both conscious and unconscious factors such as the:

1. intensity of desire or need
2. incentive or reward value of the goal
3. expectations of the individual and of his or her peers."

Keeping yourself motivated and keeping staff motivated is difficult, especially for owner-managers constantly sidetracked by issues that pull them away from their course of action.

### Know Yourself — Know Your Reasons to Be Motivated

One of the first steps to maintaining motivation is to determine the reason to pursue a project.

Determine whether your motivation is perhaps sparked by a deeply rooted need to emulate your parents, a desire to reach a million dollars in sales, or to meet the needs of others by providing a high-quality service or product.

Whatever your reasons, the following are some tips to maintain the drive to reach your goals.

1. Treat your life as a project and yourself as the project manager. Break the project into long-term, medium-term and short-term projects. Over the long-term, you may want to sell your business for \$20 million at age 60, but in the next five years (medium term) you want to reach \$10 million in sales. In the short term (this year) you need to improve your operating margin to X%. As usual, Warren Buffett, chairman and CEO of Berkshire Hathaway and one of the world's most successful investors, got it right: "I don't look to jump over seven-foot bars — I look for one-foot bars that I can step over."
2. Establish the steps needed to reach the goal. Break each step into identifiable stages. Within each stage outline and document the task needed to complete that specific stage of operation. At the end of each day, review the outline and determine the progress. Such an approach allows you to determine the progress of that stage and to "tweak" the task to move forward quickly. Successful completion of the task will provide you with the motivation to move onto your next goal.

## Motivation - continued

3. Prepare yourself mentally for your day. When you awake, review what you plan to achieve that day. Outlining your goal motivates action and gets results.
4. Maintain a list of tasks to be done. Thus, when a major task hits a delay and you start to feel overwhelmed, you can look to your list and work on a simpler task that can be more easily completed. Completing each task, even a small one, will provide confidence that other tasks can be successfully completed. Even small successes can sustain motivation and prevent demoralization.
5. Pace yourself on all projects. Time frames that are too tight may lead to costly mistakes that will limit your ability to move forward. A measured pace ensures a better rate of success and the successes keep the flame of motivation lit.

### ***You cannot achieve everything by yourself.***

6. Remember: No matter how much you learn or how much you try, you cannot achieve everything by yourself. Understand both your mental and physical limitations and pick your projects and tasks accordingly. Struggling to reach unattainable goals demoralizes. Knowing your limitations frees you to engage others more knowledgeable and allows you to say “NO” to tasks above your competence level. Staying within your capabilities within your field of expertise allows you to concentrate on what you are good at, which in turn maintains your confidence level and allows you to keep motivated.
7. Be positive. Never say “I can’t”. Much of success is attributable to simple endurance. When you have self-doubts, talk to your spouse, a peer or an outside professional. Simply articulating your concerns often provides insight and renews confidence in your own ability.
8. Read how others overcame similar obstacles. Meet with others inside or outside your organization who inspire you to move forward. Positive reinforcement or constructive ideas for change are great motivators.
9. Motivation comes not only from within but from the enthusiasm and desires of others who share your dreams and goals. When you decide to take on a project, ensure your team is fully vested from the start. The mutually reinforcing drive, ideas, and solutions of a team will keep not only you motivated but will also maintain team motivation until the project is completed.
10. “Success” is a word every entrepreneur likes to hear, but “failure” is the word that often creeps into an owner-manager’s thoughts when projects go off the rails. Fear of failure and the accompanying financial loss is a strong motive to keep going. Failure motivates us to re-examine our process and make changes to move forward until we succeed.

## Managing the Crests and Troughs

Motivation to succeed starts out as a tsunami when an idea is first born but tends to diminish to a ripple before it reaches the shore of success. Ensuring that enthusiasm is maintained throughout the life of a project or for your business means that as an entrepreneur, you must manage the crests and troughs of the wave to ensure that motivation keeps your staff moving forward toward a future that fulfills the needs of your employees, the needs of your business, and, of course, your own personal needs. ♦



## The Heat Is On

**A review of your HVAC system may show you how to improve your bottom line by saving on the cost of energy.**

Because lighting, heating and cooling represent 19%-25% of the cost of operating a commercial business, control of energy costs is essential to improving profit margins. A reduction of even 10% in these costs can produce a significant improvement. But, because Canada is located in a part of the world where temperatures can range from 40C below zero to 35C above, it is inevitably expensive to keep internal temperatures at levels needed to maintain comfortable working conditions through the changing seasons.

### Heating and Air Conditioning

The best means of controlling the temperature in the working environment is to install commercial programmable thermostats set to the workplace schedule. Thermostats can maintain comfortable temperatures during working hours, then be turned down or even off during nights, weekends, or holidays, when the workplace is not being used. Managing temperatures in this way can contribute significantly to the bottom line.

Smart thermostats have auto sensors that recognize when people enter or leave the work area. Once everyone has left for the day, the system automatically reverts to a lower setting to conserve energy; when the first worker arrives in the morning, the system will start up and return to the regular programmed schedule. When employees are absent for longer periods such as holiday weekends, the automatic system can be shut off completely. To prevent employees from tinkering with the temperature settings, smart thermostats incorporate a security code that must be entered before the temperature or other settings can be changed.

Most work locations have one central heating/cooling system that is fairly easy to manage. If, however, your building(s) have different areas that require self-contained heating/cooling systems, or if your business operates at more than one location, wireless smart systems enable remote control of individual thermostats through an app you can load onto your computer or smart phone.

Some systems record the history of heating/cooling adjustments. This data can be used to identify times and places of peak energy use, which, in turn, may identify the need to upgrade windows, doors or insulation.

## The Heat Is On - continued

If you install a smart system, have an HVAC technician make sure the new thermostats will communicate with the existing HVAC system.

**Upgrade to multi-glazed windows with low-emissivity coatings.**

### Windows

Workplace windows should have at least two layers of glass with an inert gas (e.g., argon) sandwiched between the layers. Normal double-glazed windows have an R-value (i.e., the ability of material to resist the transfer of heat) of 2.0; triple-glazed windows provide an R-value of 6.0. These windows should have insulated edge spacers to reduce condensation, insulated frames, and low emissivity coatings that reduce heat loss from within and allow solar energy to enter. Multi-glazed windows not only prevent heat from escaping, they also prevent the entry of unwanted heat from the summer sun. Because of their thickness, multi-glazed windows reduce the effect of road noise and are harder to break than single-pane windows.

Maximize the return on your window investment by understanding the benchmark ratings established by the Canadian Standards Association (CSA). For instance, air tightness is measured from A1 to A3, water tightness rated from B1-B7, and wind load resistance from C1 to C5. The higher the number within each measurement category, the better the window.

### Light-Blocking Curtains

To supplement new high-R and CSA-rated windows, you may be well advised to invest in curtains and blinds especially if your building has extreme window exposure to sun and cold winds. Curtains minimize the intrusion of heat from the sun and take pressure off the cooling system. During cold winter days, the curtains can be opened to allow the sun's energy to augment the heating system or closed to retain the heat on cloudy days.

### Reduce Your Carbon Footprint

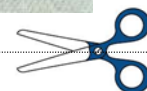
Controlling the heating and cooling of your premises with smart thermostats and retrofitting of windows and window coverings are excellent ways of reducing the high cost of energy use while reducing your carbon footprint.

Most provinces have programs that help small businesses conserve energy and therefore reduce operating costs. Check with your provincial energy agency to save energy through appliance and equipment upgrades, building enhancements and by educating your employees about the need for proper maintenance and more efficient use of existing equipment or lighting. ♦



# Inside PYC

The annual Ontario Non-Profit Association (ONPHA) conference will be held November 3<sup>rd</sup> to 5<sup>th</sup> in Niagara Falls where J.J. Pauze and Viola Bardhoshi will be at the Trade Show. Viola will also be presenting the Award of Excellence at the opening plenary and delivering a *Reading and Understanding Financial Statements* workshop. Finally, Tom McGivney will be discussing ONPHA's audited financial statements at the AGM.



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